

Media Release:

Taishin D.A. Finance Ratings Affirmed At 'twA+/twA-1'; Outlook Remains Negative On Capital Strain

May 9, 2024

Overview

- We believe that the recent acquisition of its China leasing subsidiary will make it difficult for **Taishin D.A. Finance Co. Ltd.** to maintain very strong capitalization without a proactive capital plan.
- We have affirmed our 'twA+' long-term and 'twA-1' short-term issuer credit ratings on Taishin D.A. Finance. The ratings continue to reflect our assessment of the company's capital policy, good financial flexibility, and our view of potential financial support from its parent, if needed.
- The rating outlook remains negative and reflects our view of a one-in-three possibility that the company will fail to maintain its capital strength over the next one to two years.

Rating Action

Taiwan Ratings Corp. today affirmed its 'twA+' long-term and 'twA-1' short-term issuer credit ratings on Taishin D.A. Finance. The outlook on the long-term rating remains negative.

Rationale

The ratings affirmation reflects our view that Taishin D.A. Finance will adopt a proactive plan to maintain its capitalization over the next two years. We believe the company will implement appropriate measures to sustain its very strong capitalization following the acquisition of its China-based leasing subsidiary, Taishin Financial Leasing (China) Co. Ltd.

We forecast Taishin D.A. Finance's risk-adjusted capital (RAC) ratio will remain at 14%-15% over the next two years without a capital injection. Meanwhile, we forecast the company's consolidated return on average assets will remain at 1.0%-1.2% over the period, which is lower than our projection of 1.5%-2.5% for the domestic industry average over the same period. We also estimate the finance company will record credit costs at 0.8% to 1.0%.

In our view, Taishin D.A. Finance will gradually strengthen its profitability through more stringent risk management over the long term, which will help the company meet its capital policy. We also believe that Taishin D.A. Finance has the financial flexibility to maintain very strong capitalization, given its track record with several capital injections and full earnings retention over the past few years. In this regard, we believe the parent **Taishin Financial Holding Co. Ltd.** (Taishin FHC) group could provide financial support to the finance subsidiary to meet its target capitalization, if needed.

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We continue to view Taishin D.A. Finance as a strategically important entity of Taishin FHC group. We believe the company complements the group's core banking operation by serving small and mid-sized corporate financing needs, as well as retail clients that the group sees as a strategic fit to its business operations.

Outlook

The negative rating outlook on Taishin D.A. Finance reflects the difficulty for the company to maintain very strong capitalization over the next two years. This follows the company's increased China exposure after the acquisition of Taishin Leasing China at the end of 2023. We do not anticipate a significant deterioration in Taishin D.A. Finance's consolidated asset quality over the next two years. Furthermore, we believe the parent Taishin FHC group will support Taishin D.A. Finance over the period, if necessary.

Downward scenario

We may lower the long-term rating on Taishin D.A. Finance if:

- The company's consolidated RAC ratio falls and remains consistently below 15%;
- The company's asset quality deteriorates to and remains consistently below the domestic industry average;
- The overall group credit profile weakens; or
- The importance of Taishin D.A. Finance to the parent group weakens.

Upward scenario

We may revise the outlook on Taishin D.A. Finance to stable if we believe the company can sustain the consolidated RAC ratio above 15% or if it can demonstrate better consolidated asset quality than similarly rated peers.

Related Criteria & Research

Related Criteria

- General Criteria: Group Rating Methodology - July 01, 2019
- General Criteria: National And Regional Scale Credit Ratings Methodology - June 08, 2023
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings - April 07, 2017
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions - December 09, 2021
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology - December 09, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings - October 10, 2021
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology - July 20, 2017
- General Criteria: Principles Of Credit Ratings - February 16, 2011

Related Research

- Taiwan Ratings' Ratings Definitions – Nov. 11, 2021

(Unless otherwise stated, these articles are published on www.taiwanratings.com)

Ratings List

Ratings Affirmed; Outlook

Taishin D.A. Finance Co. Ltd.

Issuer Credit Ratings	twA+/Negative/twA-1
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Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.taiwanratings.com for further information. Complete ratings information is available to subscribers of Rating Research Service at rrs.taiwanratings.com.tw. All ratings affected by this rating action can be found on Taiwan Ratings' public website at www.taiwanratings.com.

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